

In Plain English:

MAKING SENSE OF THE FEDERAL RESERVE

A VIRTUAL TOUR

Lesson Description

In this lesson, students view the DVD, *In Plain English: Making Sense of the Federal Reserve, A Virtual Tour*. They work in groups to determine the important information from the DVD to include in a concept map—a diagram of words and/or pictures to describe the structure and functions of the Federal Reserve. The groups pair and review one another's concept maps. Concept maps are posted, and all class members review them. Finally, a class discussion reviews the important content related to the structure and functions of the Federal Reserve System.

Grade Level

6–12

National Voluntary Content Standard in Economics

Standard 20: Benchmarks 8 and 9 for grade 12

Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money and the availability of credit. Changes in the money supply can influence overall levels of spending, employment and prices in the economy by inducing changes in interest rates charged for credit, and by affecting the levels of personal and business investment spending.

The major monetary policy tool that the Federal Reserve System uses is open market purchases or sales of government securities. Other policy tools used by the Federal Reserve System include increasing or decreasing the discount rate charged on loans it makes to commercial banks and raising or lowering reserve requirements for commercial banks.

Economic Concepts

Federal Reserve System

Monetary policy

Structure and functions of the Federal Reserve System

Objectives

Students will be able to:

1. Describe three components in the structure of the Federal Reserve System.
 2. Explain why the Fed is called the bankers' bank.
 3. Define monetary policy.
 4. Explain why the Federal Reserve was established.
 5. Explain the difference between regulation and supervision.
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Time Required

60 to 75 minutes

Materials

Transparency 1

Copy of Handout 1 for each student

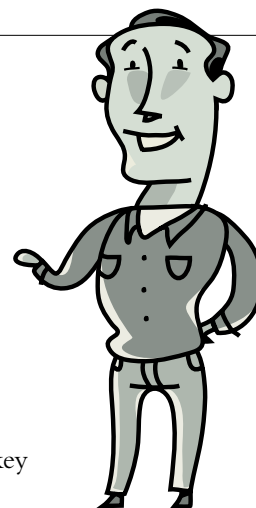
Copies of Handout 2 cut apart to provide a set of cards for each group of students

A piece of chart paper, a roll of transparent tape and a set of markers for each group

Copy of Handout 3 for each student

DVD of *In Plain English: Making Sense of the Federal Reserve, A Virtual Tour*

Masking tape



1. Tell the students that a concept map—a diagram of words and/or pictures arranged around a central key word or idea—is used as an aid in studying and understanding a key idea or concept. Today, groups of students are going to develop a concept map to help them understand and remember the structure and functions of the Federal Reserve System.
2. Display Transparency 1, Concept Map. Point out that the words Federal Reserve System are already written in the circle in the center of the page. Discuss the following:
 - To create a concept map, we have to identify what we know about a topic and create a web or diagram that will help us remember what we know and add new information that we want to remember.
 - Demonstrate by pointing out that the Federal Reserve is the central bank of the United States. Indicate this on the transparency in some way (write it near the words Federal Reserve System and draw a line connecting the two).
 - Continue by asking students to share other information or facts they know or think that they know about the Fed. Add these ideas to the concept map.
3. Point out that the current concept map only touches on a few facts about the Fed and may even include some incorrect information. Distribute a copy of Handout 1 to each student, and tell the students that they will view a DVD about the structure and function of the Federal Reserve System. Tell the students that while viewing the DVD, they should look for answers to these questions and take notes regarding important content they might include on a concept map while watching the DVD.
4. Show the DVD, *In Plain English: Making Sense of the Federal Reserve, A Virtual Tour*.
5. Following the DVD, divide the students into groups. Tell the groups they may use any notes they took during the presentation to help them. Distribute a set of cards from Handout 2, Concept Map Cards, to each group of students. Tell the students to sort the cards and eliminate those that are not relevant to the Fed or are inaccurate regarding the structure and functions of the Federal Reserve System.
6. After groups have eliminated irrelevant cards, distribute a piece of chart paper, a roll of transparent tape and a set of markers to each group of students. Tell them to write Federal Reserve System in the center of each chart paper. Explain that they will use the cards to begin to create a concept map. Note: Students should not tape cards to their maps yet.
7. Tell the students that there are blank cards so that they may add information that will help the group members better recall information from the DVD and remember the structure and functions of the Federal Reserve.

8. Remind students not to tape cards to the chart paper or draw lines yet.

9. After groups have had time to work, discuss the following:

- Which cards do you think are irrelevant to understanding the structure and functions of the Federal Reserve? (*Answers will vary.*) Point out that there are cards that are irrelevant.
- Card #3 is accurate but irrelevant to the structure and functions of the Fed. The Bureau of Engraving and Printing, a division of the U.S. Treasury, prints currency. The Federal Reserve is not involved in printing currency.
- Card #8 is accurate but irrelevant to the structure and functions of the Fed. Congress and the U.S. president conduct fiscal policy; the Fed is not involved with fiscal policy.
- Card #21 is accurate but irrelevant to the structure and functions of the Fed. Fiscal policy *does* involve tax policy and spending decisions of the federal government; the Fed is not involved with fiscal policy.

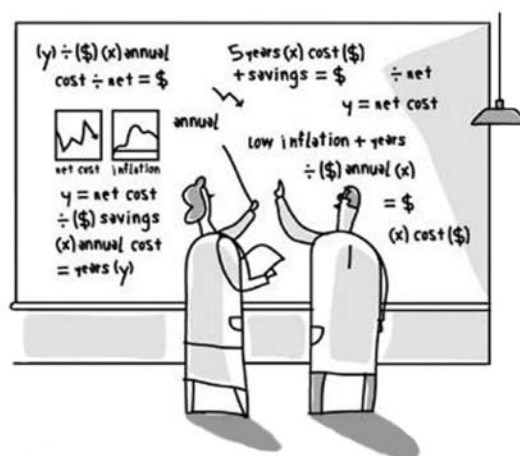
10. Discuss the following.

- Which card(s) are incorrect regarding the structure and function of the Federal Reserve? (Card #23: In addition to setting the discount rate, the Federal Reserve sets other market interest rates, such as the prime rate; Card #17: The U.S. president tells the Board of Governors what policy to implement.)
- Why are these incorrect? (Although the Fed does set the discount rate, other interest rates are determined in the market through supply and demand. The U.S. president is not involved in monetary policy decisions.)

11. Point out that the Federal Reserve conducts monetary policy independent of the U.S. president and Congress. Also point out that in implementing monetary policy the Fed affects the supply of money which in turn affects interest rates. However, although the Fed does set the discount rate, it does not directly set or establish other interest rates in markets.

12. Ask students to take turns reading the remaining cards (#1, #2, #4, #5, #6, #7, #9, #10, #11, #12, #13, #14, #15, #16, #18, #19, #20, #22, #24, #25 and #26). After a card is read, ask the students if the card is relevant to the concept map, describes a function or component of structure or is an accurate statement about the Fed. Suggested discussion points follow.

- #1: This statement is relevant to the concept map because it describes part of the structure of the Fed. It is accurate because there are seven members, appointed by the U.S. president and approved by Senate.
- #2: This statement is relevant because the Reserve banks are an element of the Fed's structure. There are 12 banks.
- #4: This statement is relevant because it describes part of the function of the Fed. It is an accurate description of an important Fed responsibility.
- #5: This is relevant to the Fed's structure and function and it is accurate.



- #6: This is relevant to the function of the Fed and it is an accurate statement.
- #7: Open Market operations is relevant to the function of the Fed and it is an accurate definition of Open Market operations.
- #9: This is relevant to the structure and the function of the Fed and it is accurate.
- #10: This is relevant to the Fed's function in conducting monetary policy and it is an accurate statement.
- #11: This is relevant. It describes the centralized and decentralized elements of the Fed's structure accurately.
- #12: This is relevant and accurate regarding the original function of the Fed.
- #13: This is relevant to the structure and functions of the Fed as it correctly describes a significant component of the structure—the Board of Governors and the functions of the Board of Governors.
- #14: This is relevant to the concept map because it accurately describes functions of the Fed.
- #15: This is relevant to the concept map because it accurately describes functions of the Fed.
- #16: This is relevant to the concept map because is accurately describes financial services the Fed provides in fulfilling its functions.
- #18: This is relevant to the concept map because it accurately describes a component of the structure of the Fed.
- #19: This is relevant to the concept map because it accurately describes a function of the Fed.
- #20: This is relevant to the concept map because it accurately describes a function of the Fed.
- #22: This is relevant to the concept map because it provides an accurate definition of the Federal Reserve.
- #24: This is relevant to the concept map and accurately describes a component of the Fed's function.
- #25: This is relevant to the concept map and accurately describes part of the Fed's structure.

13. Ask the groups if they added any additional information using the blank cards provided. (*Answers will vary.*) If groups added cards, ask them to read the cards. Discuss whether or not the additional information is relevant and accurate.



14. Give groups time to tape their cards to the chart paper, use markers to draw lines that represent links between/among the cards, and to use markers to draw pictures or add additional information. For example, the FOMC has connections to the Reserve banks, as well as the Board of Governors. Remind students that if they haven't used the blank cards, they may do so to add information or pictures.

15. Post the groups' concept maps on the wall. Allow groups to view one another's concept maps to note connections and ideas they may have missed.

Closure

16. Distribute a copy of Handout 3, Individual Concept Map, to each student. Explain that the class will review key points about the structure and functions of the Federal Reserve System. As the class reviews, students can use the handout to create their own concept maps or to record the key information in some way.

- What is the Federal Reserve? (The nation's central bank.)
- Why was the Federal Reserve established? (To address banking panics and develop an efficient payments system.)
- How have the responsibilities of the Fed broadened since it was established? (It is now charged with fostering a healthy economy—low inflation and sustainable growth—and a sound banking system.)
- What is the difference between regulation and supervision? (Regulation defines acceptable behavior for financial institutions. The Board of Governors writes regulations. Supervision involves enforcement of the rules. The regional Reserve banks are engaged in supervision.)
- Which is the most important and most frequently used monetary policy tool? (Open market operations.)
- What is open market operations? (Buying and selling U.S. Treasury securities.)
- What is the responsibility of Federal Open Market Committee? (To determine the nation's monetary policy to help foster a healthy economy.)
- Who are the members of the FOMC? (The seven members of the Board of Governors and five presidents of the Federal Reserve banks.)
- What is the Board of Governors? (The Board of Governors is the federal government agency that regulates banks, contributes to the nation's monetary policy and oversees the activities of the Reserve banks.)
- How are the members of the Board of Governors chosen? (The members are appointed by the U.S. president and approved by the Senate.)
- Why do members of the Board of Governors serve 14-year terms and why are their terms staggered? (The terms are long and staggered to ensure stability and continuity to the group.)
- What comprises the centralized component of the Federal Reserve System? (The Board of Governors.)
- Why is the Fed referred to as the “bankers’ bank?” (The Federal Reserve provides the same type of services for banks that banks provide for their customers—accepting deposits and making loans.)



Assessment

17. Tell students to write five paragraphs about the Federal Reserve System. The first paragraph should cover the primary goals of the Federal Reserve System. The second paragraph should describe the structure of the Federal Reserve System. The last three paragraphs should describe the functions of the Federal Reserve System. Tell the students that they may use their concept maps and notes to help them.

HANDOUT 1: Questions to Consider While Watching the DVD

1. What is the Federal Reserve System? When was it established? Why was it established? _____

2. What are the responsibilities of the Federal Reserve System? _____

3. What are the main components of the Federal Reserve System? _____

4. What is the Federal Open Market Committee? Who are its members? _____

5. What is the Board of Governors? Who are the members? _____

6. How many Federal Reserve banks are there? _____

7. What is monetary policy? _____

8. What is open market operations? _____

9. What is the federal funds rate? _____

Other notes: _____

HANDOUT 2: Concept Map Cards

1. The Board of Governors has seven members who are appointed by the U.S. president and approved by the Senate.

2. There are 12 Federal Reserve banks.

3. The Bureau of Engraving and Printing prints currency.

4. The responsibilities of the Federal Reserve System include fostering a healthy economy—promoting stable prices and sustainable economic growth—and fostering a sound banking system.

5. The Federal Open Market Committee includes the Board of Governors plus five Federal Reserve Bank presidents.

6. The most important tool of monetary policy is open market operations.

7. Open market operations involve buying and selling treasury securities.

8. Congress and the U.S. president conduct fiscal policy.

HANDOUT 2: Concept Map Cards (continued)

9. Five Federal Reserve bank presidents are voting members of the Federal Open Market Committee.

10. The federal funds rate is the interest rate banks charge one another for overnight loans.

11. The Federal Reserve combines national authority through the Board of Governors with regional independence through the 12 Federal Reserve banks.

12. The Federal Reserve System was originally created to address banking panics. Two important goals when the Fed was established were providing emergency cash reserves for banks and developing an efficient national payment system.

13. The Board of Governors writes regulations that make commercial banks financially sound; works with research economists and support staff to study trends and forecast future economic conditions; oversees the Federal Reserve banks; and most important, participates in Federal Open Market Committee meetings.

14. The Fed both regulates the banking system and supervises financial institutions.

15. The three responsibilities of the Federal Reserve System are:
1) conducting monetary policy,
2) supervising and regulating banks and
3) providing financial services.

16. Three financial services that the Fed offers are: distributing coin and currency, processing checks, and offering electronic forms of payment.

HANDOUT 2: Concept Map Cards (continued)

17. The U.S. president tells the Board of the Governors what policy to implement.

18. The chairman and vice chairman of the Board of Governors are appointed by the U.S. president to serve four-year terms. The chairman reports twice a year to Congress on the Fed's monetary policy objectives.

19. Monetary policy involves managing the nation's system of money and credit. The Fed uses three tools to carry out its monetary policy goals: discount rate, reserve requirements and open market operations.

20. Regulation defines acceptable behavior for financial institutions. Supervision involves enforcement of the rules. The Board of Governors writes the regulations. The Federal Reserve banks supervise financial institutions in their districts.

21. Fiscal policy involves tax policy and spending decisions of the federal government.

22. The Federal Reserve is the nation's central bank.

23. In addition to setting the discount rate, the Federal Reserve System sets other market interest rates, such as the prime rate.

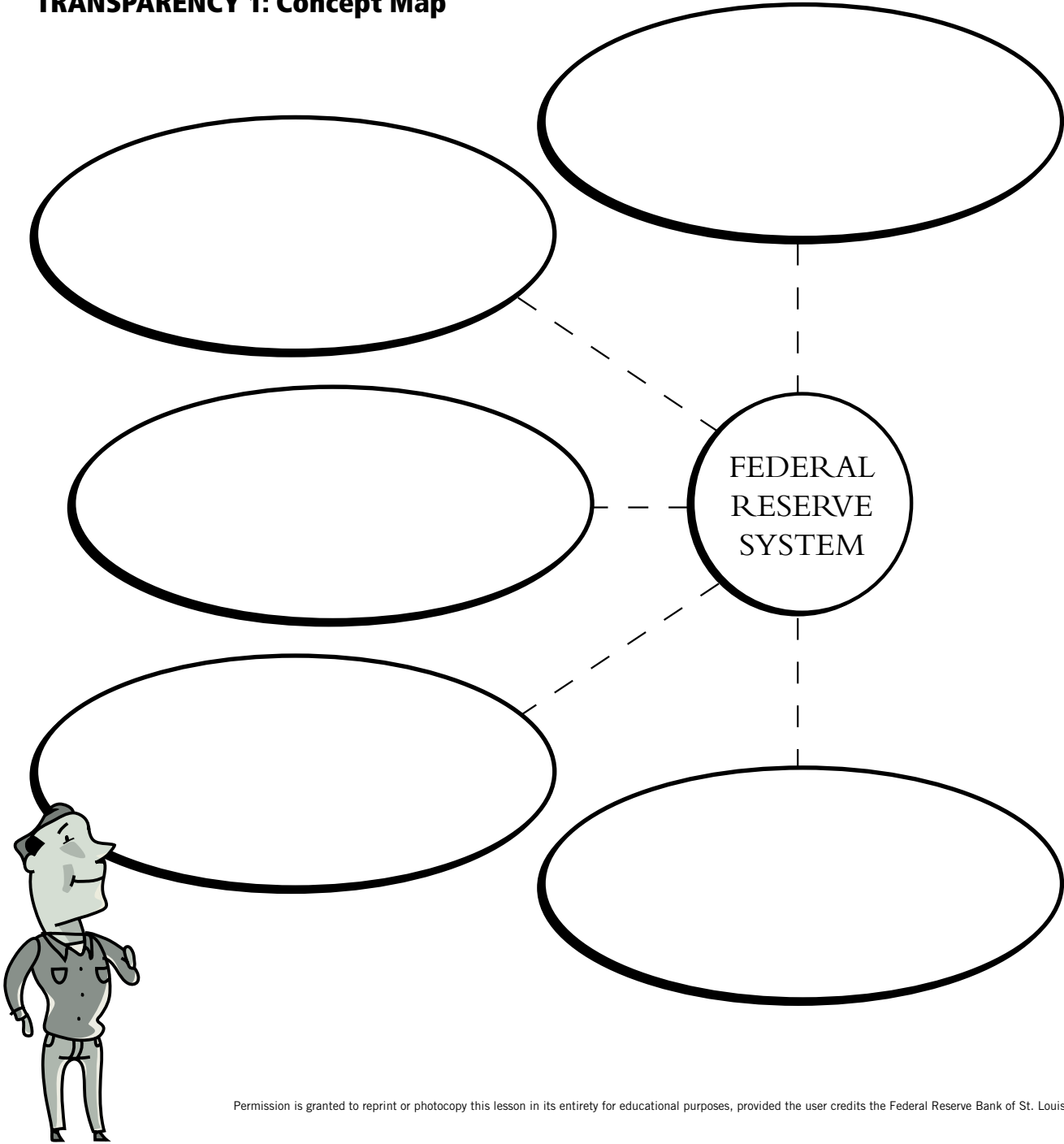
24. The Federal Reserve System influences the money supply.

HANDOUT 2: Concept Map Cards (continued)

25. Members of the Board of Governors serve 14-year terms. Appointments are staggered—one term expiring every two years—to ensure stability and continuity in the group.

26. Individuals are able to open accounts at Federal Reserve banks or branches.

TRANSPARENCY 1: Concept Map



HANDOUT 3: Individual Concept Map/Note Page

